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CENTRAL INTELLIGENCE AGENCY  
Office of Current Intelligence  
25 January 1963

CURRENT INTELLIGENCE MEMORANDUM

SUBJECT: European Common Market and the US Economy

1. The impact of the European Common Market on the US economy will be determined not only by the policies of the EEC itself and the US reaction thereto, but also by economic trends in Western Europe which would have continued at least to some extent without the EEC. The rapid economic growth in Western Europe in recent years, and the narrowing of the US lead in productivity and technology, have been accelerated but not wholly caused by the EEC. US producers are facing and will probably continue to face much stiffer competition for markets than in the past. Some of the difficulties which US traders may face in coming years, therefore, will be the result of a complex of factors, of which the Common Market is only one element.

2. The extent of the US's potential difficulties with the EEC has been the object of official concern for a number of years, and two examples of the numerous studies which have been made are attached.\* This memorandum draws on the findings of these studies and focuses specifically on the effect which the EEC may have on (a) US agricultural trade with the Common Market area, (b) US industrial trade with the Common Market area, (c) US trade with third areas, and (d) US investments in the EEC area. More important than these specifics, however, is the fact

\*Economic Report of the President, together with the Annual Report of the Council of Economic Advisers, January 1963.

Factors Affecting the United States Balance of Payments, Joint Economic Committee of the US Congress, 1962.

State Dept. review completed

On file Department of Agriculture release instructions apply.

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that the very establishment of the EEC is creating a new center of economic and eventually political power greater than the sum of its parts. It has been US policy to foster precisely such a development for larger political purposes, and it has been recognized that some economic disadvantages might result. The interests of this new force in the world economy do not always coincide with US commercial interests.

3. In some measurements of size and power, the Common Market is already nearly the equal of the US. The population of the EEC is about 171,000,000; that of the US nearly 184,000,000. The EEC's 1961 gross output of \$174 billion is only two-fifths of the US gross output, but the total foreign trade of the EEC is larger than that of the US. Exports and imports of the members in 1961 were each about \$20.5 billion; for the US, imports were about \$14.3 billion and exports were \$18.7 billion. With foreign trade of this magnitude, the EEC, assuming it survives the present crisis over Britain's admission, will increasingly achieve a measure of influence previously held only by the US in the economic activity of non-Communist nations.

4. In the field of trade restrictions, the US has already felt the sting of the EEC. During the 1950s, the US unilaterally imposed restrictions to protect certain domestic goods (e.g., lead, zinc, watches, bicycles) with little fear of concerted retaliation by European countries. Last summer, however, the EEC retaliated against US increases in the duties on glass and carpets by raising its own tariffs on several chemical and plastics products imported mainly from the US. The Common Market clearly now can react in quick and united fashion to any increase in American protectionism.

#### US Agricultural Trade with the Common Market

5. The Common Market will probably have an adverse impact on US-EEC trade only to the extent that the EEC moves toward policies more protectionist than those its members would otherwise have adopted. In the field of agriculture, protectionist policies have a long history in Western Europe as well as the US, and there are fears in the US that the EEC's emerging

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Common Agricultural Policy will increasingly favor domestic over US and other third country producers.

6. Excluding agricultural exports to under-developed countries on aid terms, total US agricultural exports for dollars amounted to about \$3.5 billion in the year from mid-1961 to mid-1962, 20 percent of our total merchandise export earnings. Of this \$3.5 billion, \$1.2 billion went to the six EEC countries. On commodities which account for over half of these exports (\$700 million), the EEC is adopting liberal trade policies and prospects are good for continuing expansion of this trade. The products involved are produced either not at all or in small volume within the Common Market: cotton, soybeans, tallow, hides and skins, certain fruits and vegetables. The limited domestic EEC production will be protected by moderate tariffs.

7. The concern of the US is concentrated on the remaining \$500 million of American agricultural exports to the EEC, including our exports of wheat and wheat flour (\$121 million), feed grains (\$271 million), and poultry and eggs (\$67 million). Under the Common Agricultural Policy, whose initial regulations went into effect on 30 July 1962, EEC imports of these products will be controlled by a system of variable levies which replace the previously existing national tariffs, quotas, and a great variety of other restrictions. These levies are import duties which are to be changed as the relationship between EEC internal prices and world market prices of the products involved changes. The changes will be to whatever levels the EEC considers necessary to equalize the price of imported products with the EEC's domestic prices, and to afford a price preference to the marketing of domestic production.

8. US exports of poultry and egg products to the EEC countries since 30 July 1962 have already suffered from the new system. The application of the variable levies and minimum import prices in West Germany, our major market, has resulted in an import charge of about 12.5 cents a pound on poultry, in place of a duty of about five cents a pound charged before 30 July. High level efforts--including a personal letter from the President to Chancellor Adenauer--have been made by the US government to get these charges

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reduced. The West German government and the EEC Council are now considering action which the US hopes will accomplish this.

9. For wheat and other grains, the decisions under the Common Agricultural Policy which are crucial for US producers concern the level of the unified support prices which are gradually to replace the widely varying national support prices on grain. West Germany, for example, has a much higher wheat support price than does France, which is a more efficient producer. Prices in the other countries fall between these extremes. (US wheat production is more efficient, and prices therefore lower, than in any Common Market country.) Bargaining within the EEC over the price level which should ultimately prevail has been prolonged and inconclusive, and Germany has so far adamantly rejected any price lower than its own. A price at or near the German level, however, will so encourage production elsewhere within the market, particularly in France, that imports from the US and other outsiders will be squeezed out.

10. The EEC is scheduled to make an initial decision on wheat prices by 1 April 1963, and this is one reason why US pressures on and criticism of the Common Market have recently increased. Some recent evidence suggests that the EEC may decide to postpone action on wheat prices for another year or more. Even if a decision is finally reached to set the price near the relatively low French level, however, US producers cannot expect to retain their present share of the EEC wheat market indefinitely. Even prior to the introduction of the Common Agricultural Policy, wheat production in the EEC area was rapidly expanding and becoming more efficient, thus reducing import requirements. The US Department of Agriculture has estimated that under the previously existing national agricultural programs, the EEC would approach self-sufficiency in wheat by the late 1960s. A protectionist EEC policy may speed this process, but it apparently will occur anyway.

11. The prospects for continued high US exports of feed grains (oats, barley, corn, sorghum, and rye) to the EEC are less bleak than for wheat. A rapid expansion of output within the Six is likely, but consumption of feed grains, unlike wheat, will probably increase just as rapidly. The increase will go into

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the feeding of meat-producing animals as rising incomes result in changed dietary habits and a stronger demand for meat. Imports at roughly present levels will continue to be needed for the next several years.

12. The difference between wheat and feed grains, however, is only one of degree. Even in feed grains, the EEC will probably provide a larger share of its own needs by the early 1970s, although 100 percent self-sufficiency is not expected. As with wheat, the establishment of high prices under the Common Agricultural Policy will accelerate this process.

13. The impact on US agricultural trade which Britain's membership in the EEC would produce is unclear. In the 1961-1962 market year, US agricultural exports to Great Britain were about \$500 million. Grains and certain livestock products, which account for \$130 million of this total, would be subject to the variable levy system and adversely affected by an overly protective application thereof. For most other US agricultural trade with the UK, UK tariffs are lower than in the Common Market, and British entry into the EEC might also impair our terms of access to the UK market for these goods.

14. Britain would in general, however, add a strong voice in Common Market councils favoring liberal, non-protectionist trade. Britain wants to minimize the rise in food prices for British consumers which would result from application of the Common Agricultural Policy in England. London therefore favors continued imports of grain from third areas (albeit to protect UK and Commonwealth rather than US interests), a low price for wheat within the Common Market, and lower tariffs on agricultural products not covered by the levy system.

#### US Industrial Trade with the Common Market

15. The EEC's projected common external tariff, being introduced by stages, will not, in the view of most analysts, be appreciably higher for industrial goods than the average of the national tariffs it is replacing. Various specialists on both sides of the Atlantic have computed the average of the common external tariff to be somewhere between 8 and 15 percent. One study by the US Government has concluded that its

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impact on the US might be the equivalent of an 8.9 percent average tariff, compared with an 8.7 percent average computed for the individual tariffs of EEC members. These calculations were made prior to an agreement between the US and the EEC in the spring of 1962, which resulted in a moderate reduction of both EEC and US tariffs.

16. In defending the common external tariff, some EEC officials have argued that it is lower than the average US tariff, but the US Government does not admit this. The different statistical methods of adding together tariffs on thousands of different commodities, weighing them, and computing an average, are all subject to much argument. US Under Secretary of State Ball, testifying before a congressional committee in December 1962, admitted that he had never been able to figure out, "with any great satisfaction," whether the EEC's common external tariff will be higher or lower than present US tariffs.

17. The principal difficulty is that there is a basic difference in the structure of protection as between the common external tariff and the US tariff. The tariff levels of the EEC, for the most part, tend to fall within a relatively narrow range, the majority of them being between 5 and 15 percent. US tariffs, on the other hand, are spread over a much wider spectrum. We have a great many items on the free list, but we also have many items with tariffs running as high as 100 to 200 percent.

18. Since in any case no substantial increase in protectionism on industrial goods is expected, US exports of such goods to the Common Market should continue at least at present levels and may even expand. Most observers believe that the extra impetus given the expansion of economic activity by formation of the Common Market will increase the EEC's import requirements enough to offset any diversion of trade from outside producers to internal EEC producers. If negotiations under the US Trade Expansion Act are successful in further reducing trade barriers, an additional increase of US-EEC trade in both directions can be expected. As these changes develop, however, there may be painful adjustments as particular US industries lose part of their markets to internal EEC producers, and other US industries expand to satisfy new markets.

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### US Trade with Third Areas

19. US exports to the EEC of about \$3.5 billion in 1961 are only one-fifth of total US exports. In addition to their direct impact on this trade, the nations of the Common Market may have indirect and possibly unpleasant effects on the other four-fifths of US exports. The new competitive strength of Western Europe has already cracked the former dominant position of the US as an exporter of advanced technology and equipment. As already pointed out, this European strength does not result primarily from the organizing of the Common Market, but it may be buttressed by the bargaining power of a united EEC. Precisely how much this will affect US foreign trade in the coming years cannot be determined.

20. Related to the problem of trade with third areas is the more general question of economic policies to be pursued by the Atlantic Alliance countries toward other areas. The US can probably expect increasingly strong demands from the EEC countries and other allies for a greater voice in the determination of western policies on East-West trade, and trade and aid for the underdeveloped nations. This trend, of course, is evident throughout the western alliance, in the political and military as well as the economic field.

### US Investments in the EEC Area

21. Another way in which the Common Market has a significant impact on the US economy is the boost it has given to US investment in West European, and particularly EEC, industries. US direct private investments in West European industries were over a billion dollars in 1959, and have been running at about \$700 million a year since then. The Common Market is directly responsible for some of this investment, because formation of the EEC opened new prospects for large-scale production and markets within Europe behind a common tariff wall. The injections of US investment, however, have been one of the factors in the improved efficiency and competitive position of EEC industries vis-a-vis US industries. These US investments have also been one element in the US balance

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of payments deficits in recent years. In the longer run, of course, the return on these investments will become a favorable factor in the balance of payments.

22. American investments are also developing into a political irritant in US relations with at least one EEC country. On several recent occasions when US interests have purchased a French corporation or plant, French officials have complained that they were losing control over an increasing portion of their economy. The French have recently indicated that they intend to take this problem to the EEC and try to establish controls throughout the Common Market area on foreign investments.

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